

To the Board of Directors and Members  
Jerome Foundation, Inc.  
Saint Paul, Minnesota

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of Jerome Foundation, Inc. (the "Foundation") for the year ended April 30, 2017, and have issued our report thereon dated August 3, 2017. This letter presents communications required by our professional standards.

*Our Responsibility under Auditing Standards Generally Accepted in the United States of America*

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the Board of Directors and Members of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

*Planned Scope and Timing of the Audit*

We performed the audit according to the planned scope and timing previously communicated to you in our email correspondence.

**Significant Audit Issues**

*Qualitative Aspect of Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Foundation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017.

We noted no transactions entered into by the Foundation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- > Valuation of Investments That Are Not Readily Marketable. Investments in timber and timberlands have been estimated using an independent appraisal by a forestry consultant. We have been informed that management reviews and monitors the forestry consultant's appraisal.
- > Valuation of the Beneficial Interest in a Charitable Remainder Trust. Management's policies for estimating the value of the beneficial interest in a charitable remainder trust are described in Note 1 to the financial statements.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the audit, management identified and corrected one financial statement misstatement related to prior periods.

- > Understatement of 2016 deferred tax liability corrected in FY 2017 in the amount of \$366,735.

Management has determined that the effect of the misstatement was immaterial to the current and prior year financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the Foundation's financial statements, or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter. Management has indicated that they have forwarded these representations to our primary contact within the governance structure.

### *Significant Issues*

Professional standards require us to communicate any significant issues that were discussed, or were the subject of correspondence with management. There were no additional communications or correspondence with management that have not been disclosed in this letter.

### *Independence*

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Foundation that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the Foundation for the year ended April 30, 2017, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Foundation in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. During the year ended April 30, 2017, Baker Tilly Virchow Krause, LLP provided the following services to the Foundation:

- > Preparation of the tax return

### *Other Audit Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of the Board of Directors and Members and management of the Foundation and is not intended to be and should not be used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
August 3, 2017

**JEROME FOUNDATION, INC.**

Saint Paul, Minnesota

**FINANCIAL STATEMENTS**

**Including Independent Auditors' Report**

**As of and for the Years Ended April 30, 2017 and 2016**

**JEROME FOUNDATION, INC.**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members  
Jerome Foundation, Inc.  
Saint Paul, Minnesota

We have audited the accompanying financial statements of Jerome Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of April 30, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of April 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
August 3, 2017

**JEROME FOUNDATION, INC****STATEMENTS OF FINANCIAL POSITION**

As of April 30, 2017 and 2016

<b>ASSETS</b>		
	2017	2016
Cash and cash equivalents	\$ 215,394	\$ 373,327
Other receivables	1,558	1,763
Prepaid expenses	9,213	7,383
Investments (Notes 2 and 3)	95,347,659	88,671,313
Beneficial interest in charitable remainder trust (Notes 2 and 11)	3,788,131	3,287,072
Property and equipment, net (Note 5)	21,959	30,849
<b>TOTAL ASSETS</b>	<b>\$ 99,383,914</b>	<b>\$ 92,371,707</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Grant commitments payable (Note 6)	\$ 2,355,290	\$ 1,185,473
Accounts payable	9,335	2,832
Accrued liabilities	47,910	-
Excise tax payable (Note 7)	79,786	-
Deferred excise tax payable (Note 7)	455,842	-
<b>Total Liabilities</b>	<b>2,948,163</b>	<b>1,188,305</b>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	92,647,620	87,444,523
Board designated (Note 1)	-	451,807
Total unrestricted net assets	92,647,620	87,896,330
Temporarily restricted (Note 11)	3,788,131	3,287,072
<b>Total Net Assets</b>	<b>96,435,751</b>	<b>91,183,402</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 99,383,914</b>	<b>\$ 92,371,707</b>

See accompanying notes to financial statements.

**JEROME FOUNDATION, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
For the Years Ended April 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>OPERATING</b>						
<b>SUPPORT AND REVENUE</b>						
Contributions	\$ 15,000	\$ -	\$ 15,000	\$ 15,000	\$ -	\$ 15,000
Spending allowance appropriation	3,834,967	-	3,834,967	4,337,211	-	4,337,211
Total Support and Revenue	<u>3,849,967</u>	<u>-</u>	<u>3,849,967</u>	<u>4,352,211</u>	<u>-</u>	<u>4,352,211</u>
<b>EXPENSES</b>						
Grants awarded, net of cancellations and refunds of \$35,641 in 2017 and \$4,830 in 2016 (Note 6)	4,452,962	-	4,452,962	3,833,796	-	3,833,796
Salaries and benefits	867,687	-	867,687	950,756	-	950,756
Office and other expenses	<u>298,127</u>	<u>-</u>	<u>298,127</u>	<u>319,784</u>	<u>-</u>	<u>319,784</u>
Total Expenses	<u>5,618,776</u>	<u>-</u>	<u>5,618,776</u>	<u>5,104,336</u>	<u>-</u>	<u>5,104,336</u>
<b>CHANGE IN NET ASSETS - OPERATING</b>	(1,768,809)	-	(1,768,809)	(752,125)	-	(752,125)
<b>NONOPERATING</b>						
Interest and dividends	2,305,262	-	2,305,262	2,529,940	-	2,529,940
Net gain (loss) on investments (Note 3)	8,727,785	-	8,727,785	(3,579,003)	-	(3,579,003)
Spending allowance appropriation	(3,834,967)	-	(3,834,967)	(4,337,211)	-	(4,337,211)
Federal excise tax (expense) benefit (Note 7)	(581,871)	-	(581,871)	41,238	-	41,238
Investment and agent fees	(96,110)	-	(96,110)	(177,475)	-	(177,475)
Change in value of beneficial interest in charitable remainder trust	<u>-</u>	<u>501,059</u>	<u>501,059</u>	<u>-</u>	<u>(152,920)</u>	<u>(152,920)</u>
<b>CHANGE IN NET ASSETS - NONOPERATING</b>	<u>6,520,099</u>	<u>501,059</u>	<u>7,021,158</u>	<u>(5,522,511)</u>	<u>(152,920)</u>	<u>(5,675,431)</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	4,751,290	501,059	5,252,349	(6,274,636)	(152,920)	(6,427,556)
NET ASSETS - Beginning of Year	<u>87,896,330</u>	<u>3,287,072</u>	<u>91,183,402</u>	<u>94,170,966</u>	<u>3,439,992</u>	<u>97,610,958</u>
<b>NET ASSETS - End of Year</b>	<u>\$ 92,647,620</u>	<u>\$ 3,788,131</u>	<u>\$ 96,435,751</u>	<u>\$ 87,896,330</u>	<u>\$ 3,287,072</u>	<u>\$ 91,183,402</u>

See accompanying notes to financial statements.



**JEROME FOUNDATION, INC.**

**STATEMENTS OF CASH FLOWS**  
For the Years Ended April 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS USED FOR OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,252,349	\$ (6,427,556)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	8,890	2,887
Net (gain) loss on investments	(8,727,785)	3,579,003
Change in beneficial interest in value of charitable remainder trust	(501,059)	152,920
Deferred excise tax expense (benefit)	455,842	(66,857)
Changes in operating assets and liabilities		
Other receivables	205	(1,763)
Excise tax payable	77,956	6,154
Grant commitments payable	1,169,817	488,889
Accrued liabilities	47,910	-
Accounts payable	<u>6,503</u>	<u>(30,995)</u>
Net Cash Flows Used For Operating Activities	<u>(2,209,372)</u>	<u>(2,297,318)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,352,597)	(2,598,367)
Proceeds from sales of investments	4,404,036	5,151,012
Purchase of equipment	<u>-</u>	<u>(28,821)</u>
Net Cash Flows From Investing Activities	<u>2,051,439</u>	<u>2,523,824</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>(157,933)</u>	<u>226,506</u>
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>373,327</u>	<u>146,821</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 215,394</u>	<u>\$ 373,327</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for excise tax	<u>\$ 46,243</u>	<u>\$ 19,465</u>

See accompanying notes to financial statements.

## JEROME FOUNDATION, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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##### *Nature of Activities*

The Jerome Foundation, Inc. (the "Foundation") is a private foundation incorporated under the laws of Minnesota. Grants are made to support programs and projects located in the State of Minnesota and New York City in the areas of dance, literature, film and video, digital media, multidisciplinary arts, music, theater, and visual arts.

##### *Net Assets*

Net assets, revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

**Unrestricted Net Assets** - Resources over which the Board of Directors (the "Board") has discretionary control. Board designated amounts as of April 30, 2016 represented net assets set aside for individual grants in the Minnesota and New York City Film, Video, and Digital Production Grant Programs, Travel and Study Grant Program and the Composer/Sound Artist Fellowship Program that were not yet committed to individuals. As of April 30, 2017 there are no board designated amounts in unrestricted net assets.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Temporarily restricted net assets consist of the value of the Foundation's beneficial interest in a charitable remainder trust.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of such assets permit the Foundation to use all or part of the income earned on the assets. The Foundation currently has no permanently restricted net assets at April 30, 2017 and 2016.

##### *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *Cash and Cash Equivalents*

The Foundation considers all highly liquid investments, except those held for long-term investment, with maturities of three months or less when purchased to be cash and cash equivalents.

##### *Beneficial Interest in Charitable Remainder Trust*

The Foundation is named as a beneficiary of a charitable remainder trust, which allows for a distribution to the Foundation after the death of the named beneficiaries. The Foundation is not the trustee and therefore does not control or have access to the assets of the trust. The Foundation's interest in the trust is reported as fair value of the assets of the trust less the present value of estimated future payments to the noncharitable beneficiaries based on the life expectancy using a discount rate of 6%.

## JEROME FOUNDATION, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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##### *Investments*

Investments are recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Foundation records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

##### *Property and Equipment*

Property and equipment are stated at cost, if purchased, or fair market value at date of the gift, if donated. All acquisitions of property and equipment in excess of \$3,000 and all expenditures for repairs, maintenance, improvements and betterments that materially prolong the useful lives of assets are capitalized and are depreciated using the straight-line method over their estimated useful lives. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in change in net assets.

##### *Contributions*

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

##### *Tax-Exempt Status*

The Foundation has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of State law. Due to the Foundation's classification as a private foundation under the Internal Revenue Code, it pays an excise tax of 2% (reduced to 1% if certain requirements are met) of its net taxable investment income. Any unrelated business income may also be subject to taxation. The Foundation is not currently under examination by any taxing jurisdiction.

The Foundation follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Foundation for uncertain tax positions as of April 30, 2017 and 2016. The Foundation's tax returns are subject to review and examination by federal and state authorities.

##### *Classification of Expenses*

Grants and expenses associated with the Foundation's direct charitable activities are considered to be program expenses, while other expenses of the Foundation are considered to be management and general expenses.

**JEROME FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended April 30, 2017 and 2016

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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*Grants*

Grant commitments are charged to operations at the time the grants are approved by the Board of Directors.

*Concentration of Credit Risk*

At times during the year, the Foundation may have cash in excess of federally insured limits of \$250,000 per financial institution. Substantially all investments are held by one custodian, Vanguard.

*Measure of Operations*

In its Statements of Activities and Changes in Net Assets, the Foundation includes in its definition of operations all support, revenues, and expenses that are an integral part of its programs and supporting activities. Non-operating activity consists primarily of interest, dividends, net realized and unrealized gains and losses, investment and agent fees, federal excise tax provision, and change in value of beneficial interest in the charitable remainder trust.

*New Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. This new guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective date for fiscal years beginning after December 15, 2018. Early application is permitted for fiscal years beginning after December 15, 2016. The Foundation is not expecting this standard will have a significant impact on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Foundation is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is assessing the impact this standard will have on its financial statements.

## JEROME FOUNDATION, INC.

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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##### *Subsequent Events*

The Foundation has evaluated subsequent events through August 3, 2017 which is the date that the financial statements were approved and available to be issued.

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#### NOTE 2 - FAIR VALUE MEASUREMENTS

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##### *Fair Value Hierarchy*

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories. There have been no changes in the techniques and inputs used at April 30, 2017 and 2016.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

##### *Valuation Techniques and Inputs*

- Level 1 - Level 1 assets include investments in money market funds and short-term investments and mutual funds for which quoted prices are readily available.
- Level 3 - Level 3 assets include investments in timber and timberlands and a beneficial interest in remainder trusts for which there is no readily determinable fair value as the valuations are based on significant unobservable inputs. The Foundation has estimated fair value of the timber and timberlands using an independent appraisal by a forestry consultant. The Foundation's beneficial interest in a remainder trust is administered by a third party and fair value is based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

**JEROME FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended April 30, 2017 and 2016

**NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)**

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The schedules within this note are not intended to indicate the volatility of the investments.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of April 30, 2017 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and short-term investments	\$ 512,687	\$ 512,687	\$ -	\$ -
Mutual funds - domestic stocks	52,191,585	52,191,585	-	-
Mutual funds - international stocks	19,184,295	19,184,295	-	-
Mutual funds - bonds	21,097,092	21,097,092	-	-
Timber and timberlands	2,362,000	-	-	2,362,000
Beneficial interest in charitable remainder trust	3,788,131	-	-	3,788,131
<b>Total</b>	<b>\$ 99,135,790</b>	<b>\$ 92,985,659</b>	<b>\$ -</b>	<b>\$ 6,150,131</b>

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of April 30, 2016 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds and short-term investments	\$ 501,487	\$ 501,487	\$ -	\$ -
Mutual funds - domestic stocks	49,556,913	49,556,913	-	-
Mutual funds - international stocks	15,638,897	15,638,897	-	-
Mutual funds - bonds	20,702,516	20,702,516	-	-
Timber and timberlands	2,271,500	-	-	2,271,500
Beneficial interest in charitable remainder trust	3,287,072	-	-	3,287,072
<b>Total</b>	<b>\$ 91,958,385</b>	<b>\$ 86,399,813</b>	<b>\$ -</b>	<b>\$ 5,558,572</b>

**JEROME FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended April 30, 2017 and 2016

**NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)**

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended April 30, 2017:

	Balances April 30, 2016	Net realized and unrealized gains included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances April 30, 2017
Timber and timberlands	\$ 2,271,500	\$ 222,446	\$ (131,946)	\$ -	\$ 2,362,000
Beneficial interest in charitable remainder trust	<u>3,287,072</u>	<u>501,059</u>	<u>-</u>	<u>-</u>	<u>3,788,131</u>
Total	<u>\$ 5,558,572</u>	<u>\$ 723,505</u>	<u>\$ (131,946)</u>	<u>\$ -</u>	<u>\$ 6,150,131</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 assets still held at April 30, 2017

\$ 591,559

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended April 30, 2016:

	Balances April 30, 2015	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances April 30, 2016
Timber and timberlands	\$ 2,014,500	\$ 257,000	\$ -	\$ -	\$ 2,271,500
Beneficial interest in charitable remainder trust	<u>3,439,992</u>	<u>(152,920)</u>	<u>-</u>	<u>-</u>	<u>3,287,072</u>
Total	<u>\$ 5,454,492</u>	<u>\$ 104,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,558,572</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 assets still held at April 30, 2016

\$ 104,080

**JEROME FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended April 30, 2017 and 2016

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**NOTE 3 - INVESTMENTS**

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Long-term investments held by the Foundation at April 30 are as follows:

	<u>2017</u>	<u>2016</u>
Money market funds and short-term investments	\$ 512,687	\$ 501,487
Mutual fund - domestic stocks	52,191,585	49,556,913
Mutual fund - international stocks	19,184,295	15,638,897
Mutual fund - bonds	21,097,092	20,702,516
Timber and timberlands	<u>2,362,000</u>	<u>2,271,500</u>
	<u>\$ 95,347,659</u>	<u>\$ 88,671,313</u>

Realized gains associated with the Foundation's investments for the years ended April 30, 2017 and 2016 were \$4,168,905 and \$268,699, respectively. Unrealized gains (losses) associated with the Foundation's investments for the years ended April 30, 2017 and 2016 were \$4,558,880 and (\$3,847,702), respectively.

Investments, in general, are subject to various risks, including credit, interest, concentration and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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**NOTE 4 - RELATED PARTY TRANSACTIONS**

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The individual Directors who serve on the Board of the Foundation were elected as individual Trustees of the Camargo Foundation in early 2013. The two foundations are legally separate entities. The Foundation is a grant making foundation and Camargo Foundation is an operating foundation. The Camargo Foundation, constituted in New York State, conducts its program operations in Cassis, France and operates on a calendar fiscal year. The foundations were founded, in different years, by artist and philanthropist Jerome Hill. The Camargo Foundation is a residential center offering programming in the humanities and the arts. For the years ended April 30, 2017 and 2016, the Foundation awarded grants totaling \$115,000 and \$100,000 in support of Camargo Foundations operations. As of April 30, 2017 and 2016, respectively, the Foundation had paid \$115,000 and \$130,322 of the grant commitments. In addition, the Foundation donated staff services, travel, and meeting support valued at \$132,863 and \$92,100 during the years ended April 30, 2017 and 2016, respectively.

Summarized unaudited financial information for Camargo as of and for the year ended December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Total assets	\$ 13,660,812	\$ 13,133,058
Total liabilities	41,647	8,239
Total net assets	<u>\$ 13,619,165</u>	<u>\$ 13,124,819</u>
Operating revenue	\$ 567,644	\$ 656,578
Investment gains (losses)	594,975	(313,638)
Qualifying distributions	(403,564)	(424,205)
Other operating expenses	<u>(264,709)</u>	<u>(208,059)</u>
Change in net assets	<u>\$ 494,346</u>	<u>\$ (289,324)</u>



**JEROME FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended April 30, 2017 and 2016

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**NOTE 5 - PROPERTY AND EQUIPMENT**

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A summary of property costs and accumulated depreciation at April 30 is as follows:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 63,725	\$ 63,725
Vehicle	28,821	28,821
Leasehold improvements	66,524	66,524
Totals	<u>159,070</u>	<u>159,070</u>
Less: Accumulated depreciation	<u>137,111</u>	<u>128,221</u>
Net Property and Equipment	<u>\$ 21,959</u>	<u>\$ 30,849</u>

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**NOTE 6 - GRANT COMMITMENTS PAYABLE**

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Grant activity for the years ended April 30 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Grant commitments payable, beginning of year	\$ 1,185,473	\$ 696,584
Grants awarded, net	4,452,962	3,838,626
Payments	<u>(3,283,145)</u>	<u>(3,349,737)</u>
Grant commitments payable, end of year	<u>\$ 2,355,290</u>	<u>\$ 1,185,473</u>

At April 30, 2017, grant commitments payable are expected to be paid as follows:

Year Ending April 30:	
2018	\$ 2,037,290
2019	<u>318,000</u>
Total Grant Commitments Payable	<u>\$ 2,355,290</u>

**JEROME FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended April 30, 2017 and 2016

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**NOTE 7 - FEDERAL EXCISE TAX**

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The Foundation is subject to a 2% excise tax on its taxable investment income, which includes income from investments plus net realized capital gains. The tax on net investment income is reduced from 2% to 1% for any taxable year in which the Foundation's qualifying distributions meet certain minimum requirements of the Internal Revenue Code. During the year ended April 30, 2017, the Foundation's qualifying distributions did not meet the minimum requirements, which resulted in the determination of current tax expense based upon the 2% rate. During the year ended April 30, 2016, the Foundation's qualifying distributions met the minimum requirements, which resulted in the determination of current tax expense based upon the 1% rate.

Deferred excise taxes are calculated based upon the 2% rate and result from the difference between the carrying value and tax basis of the Foundation's investments, as well as from certain income and expense items being accounted for in different time periods for financial statement purposes than for federal excise tax purposes.

The federal excise tax benefit (provision) consists of the following:

	<u>2017</u>	<u>2016</u>
Current	\$ (126,029)	\$ (25,619)
Deferred	<u>(455,842)</u>	<u>66,857</u>
Totals	<u>\$ (581,871)</u>	<u>\$ 41,238</u>

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**NOTE 8 - RETIREMENT PLAN**

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The Foundation has a defined contribution profit-sharing and 401(k) plan for all eligible employees. Contributions are subject to the Board of Directors' discretion. Employer contributions for the years ended April 30, 2017 and 2016 amounted to 6% of qualified compensation per individual employee. The Foundation also matched up to and including 3% of qualified compensation for any employee who contributed up to and including 3% to his/her retirement plan for the years ended April 30, 2017 and 2016, respectively. Retirement plan expense was \$47,665 and \$50,745 for the years ended April 30, 2017 and 2016, respectively.

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**NOTE 9 - FUNCTIONAL EXPENSES**

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The functional allocation of expenses for the years ended April 30 is as follows:

	<u>2017</u>	<u>2016</u>
Programs	\$ 4,452,962	\$ 3,899,692
Management and general	<u>1,165,814</u>	<u>1,204,644</u>
Totals	<u>\$ 5,618,776</u>	<u>\$ 5,104,336</u>

During the year ended April 30, 2016, the Foundation incurred one-time expenses in the amount of \$227,075 related to the change of the Foundation's president.

**JEROME FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended April 30, 2017 and 2016

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**NOTE 10 - LEASE COMMITMENT**

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The Foundation has a non-cancelable operating lease for office space that expires September 30, 2018. The Foundation is required to pay base rent and its share of operating expenses. Rent expense related to this lease was \$59,285 and \$63,014 for the years ended April 30, 2017 and 2016, respectively. At April 30, 2017, the minimum lease payments were as follows:

Year Ending April 30:	
2018	\$ 55,980
2019	<u>23,465</u>
Total Lease Commitments	<u>\$ 79,445</u>

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**NOTE 11 - NET ASSETS**

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Temporarily restricted net assets as of April 30, 2017 and 2016 consist of funds related to the Foundation's beneficial interest in a charitable remainder trust.

	<u>2017</u>	<u>2016</u>
Beneficial interest in a charitable remainder trust	<u>\$ 3,788,131</u>	<u>\$ 3,287,072</u>